

Tax Tidbits – August 2015

Funding Your Research and Development Activities

While not a new program, the Scientific Research and Experimental Development (“SR&ED”) tax incentives provided by the Canadian Federal and Provincial governments can be a significant way to achieve a competitive advantage in your business. Be sure you are not overlooking this program as a source of government funding for your business.

In BC, depending on the size of your company, you can receive income tax credits of anywhere from 23.5% to 41.5% on your research and development expenditures. Individuals can also earn SR&ED credits equal to 23.5% of the expenditures for unincorporated business activities. Further, in certain instances these tax credits are refundable so that even if your business doesn't owe any income taxes, you will receive cash back from the government.

SR&ED is defined as the systematic investigation or search carried out in a field of science or technology by means of experiment or analysis...to advance scientific knowledge or to achieve technological advancement. In competitive marketplaces, with continuous needs to drive innovations and improve and adapt, many companies are already undertaking some forms of research and development for the purpose of creating new, or improving existing materials, devices, products or processes.

If your company is developing new products or product lines, improving the capabilities of existing products, enhancing the performance of existing products, developing new production processes or techniques you may be undertaking work that is eligible for SR&ED funding.

One of the most important factors in planning for SR&ED is ensuring that your company can access the higher refundable income tax credit rates of 41.5%. If the company (or associated group of companies) has income exceeding \$500,000 this refundable credit becomes non-refundable and the rate of credit is reduced. Planning can be undertaken to choose an optimal corporate structure to ensure that the highest rates are maintained year after year and to ensure that ongoing research and development projects receive optimal funding through the SR&ED program.

Manning Elliott can assist in developing a plan to access these additional incentives to give you more capital to drive your business. We can work with your staff to identify the costs associated with your research and development work, we can assist in preparing the financial information needed to file the SR&ED claim with the Canada Revenue Agency, and we can connect or liaise with your technical staff or consultants to ensure that your SR&ED claims are filed properly and on time.

Please contact [Lyndon Braun](#) of the [Manning Elliott Tax Team](#) for assistance.

Surprise! Indirect Tax Traps

Sometimes in the excitement of undertaking planning to achieve income tax savings, the impact of goods and services tax (“GST”), harmonized sales tax (“HST”) or the provincial sales tax (“PST”) can be overlooked. These indirect tax traps can come as a surprise after a transaction has already taken place. Be aware of the following examples:

Purchasing an Interest in a Partnership

For GST/HST purposes, a partnership interest is considered to be a financial instrument. Since financial instruments are exempt from GST/HST, no GST/HST will apply to the purchase or sale of an interest in a partnership.

In contrast, BC PST does not consider a partnership to be its own entity. For PST purposes, the partners of the partnership are considered to own their proportionate share of the partnership assets which can include both taxable and non-taxable assets (for example, office equipment versus goodwill). Where a partnership interest is sold, PST will need to be collected on the portion of the value of the taxable assets not already attributed to that partner’s proportionate interest unless a specific exemption applies.

Issuing Stock Options to Consultants

Startup companies often issue stock options as part of the compensation to their consultants. Since the consultant is not an employee, the value of the options is considered to be payment for services rendered instead of employment income.

Where a consultant is required to be registered for GST/HST purposes, they must collect and remit the applicable GST/HST on the value of the stock options. The company can recover the GST/HST paid by claiming the amounts as input tax credits (“ITCs”) on their sales tax return.

Making Payments for Lease Agreement Modifications

Where a tenant makes a payment to a landlord in exchange for damage, modification, breach or termination of a lease agreement, these payments are considered to have GST/HST included in them, where the original lease payments would have been subject to GST/HST.

The landlord is deemed to have collected, and the tenant to have paid, GST/HST on this amount, which allows the tenant to claim an ITC. Sometimes overlooked is the fact that the vendor must back out the tax included in the payment and remit that amount to the Receiver General.

Landlords should consider the GST/HST impact when determining the appropriate damage payment so that they do not end up receiving less than intended. For example, if the parties agree to a \$1,000,000 damage payment, the landlord must remit GST/HST of \$47,619 and is only really receiving \$952,380.

Please contact [Tara Hauck](#) of the [Manning Elliott Tax Team](#) with any indirect tax questions.





And More...

▪ **Election promises**

With the Federal Election fast-approaching, we are seeing an increase in promises for changes to income taxes in Canada. Examples from each party include (in no particular order):

- The Liberals have promised a tax credit of up to \$150 related to out-of-pocket expenses incurred by teachers to enhance the activities in their classroom.
- The Conservatives have promised a tax credit which would allow people to claim their membership fees for service clubs (such as the Royal Canadian Legion, Knights of Columbus and the Kiwanis) as charitable donations.
- The NDP have promised to reverse the relatively new “income-splitting” tax credit that applies to certain couples with children.
- The Green Party has promised to eliminate personal incomes taxes on incomes of \$20,000 and less.

We look forward to hearing what other promises are made in the lead up to October 19, 2015. Don't forget to vote!

▪ **Have you been affected by wildfires this summer?**

The Minister of National Revenue issued a reminder to those affected by the wildfires in Western Canada this summer that taxpayer relief is available if they cannot meet their tax obligations. If the fires have impacted you such that you will not be able to file your tax return or make your tax payments on time, a request can be made to the Canada Revenue Agency to waive or cancel any related penalties or interest that would otherwise apply.

Please contact [Dagmar Zanic](#) of the [Manning Elliott Tax Team](#) for assistance with filing a request for taxpayer relief.

